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SENSITIVE

SIPDIS

DEPARTMENT FOR EEB/ESC/IEC, EEB/CIP/BA

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TAGS: ELAB EMIN ECON ETRD PGOV AS

SUBJECT: ANTICIPATED LABOR SHORTAGE COULD STRENGTHEN UNIONS AND DELAY RESOURCE PROJECTS

**¶1. (SBU) SUMMARY:** Australia's resources and energy sector is forecast to continue growing but companies are worried about skilled labor shortages and new labor laws, which unions are keen to exploit. The GOA estimates there are 80 planned or approved energy and resource projects that are likely to increase demand for skilled labor by 70% over the next decade. This is likely to produce a labor shortage, which combined with changes to immigration and labor policies and a pipeline of confirmed projects that keeps growing by the day, could threaten the completion of, or at least delay, some of the projects. END SUMMARY.

Resource Boom and Labor Shortage

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**¶2. (SBU)** Booming investment in Australia's resources and energy sector is expected to continue. The supply of skilled labor in the sector, however, is not keeping pace and industry groups have lobbied for urgent government action. The GOA estimates there are 80 planned or approved energy and resource projects in Australia that are likely to see demand for skilled labor increase by 70% over the next decade. Minister for Resources and Energy Martin Ferguson said in November, "If all of the proposed projects proceed there could be as many as 70,000 construction jobs and 16,000 ongoing positions generated by 2020." Western Australia (WA) Premier Colin Barnett suggested in July the state would have to accept Chinese workers when the next round of major resource projects gets underway or face a critical skills shortage. (Note: WA contains many of Australia's resources and is already near full employment -- at 5%, it has the lowest unemployment rate of any state. End Note.)

Government Response

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**¶3. (SBU)** The GOA established in September a National Resource Sector Employment Taskforce to help secure the workforce required to build and operate major resource sector projects over the next decade. The Taskforce -- which includes representation from the resources industry, state governments, education and training providers -- will examine the current pipeline of skilled construction workers such as engineers, boilermakers, welders, concreters, riggers, drillers and divers that will be needed and the areas where additional skills focus will be required. It will also examine strategies to create jobs in supporting industries such as logistics, transport maintenance and hospitality.

Companies concerned

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¶4. (SBU) BHP Billiton CEO Marius Kloppers recently warned that Australia will face another skills shortage in the resources sector as global demand returns. BHP Vice President for Government Relations Bernie Delaney told us that a tight labor market is not new to the sector, where companies used to hire foreigners or pay high wages for "fly-in, fly-out" workers willing to live in tough conditions for weeks at a time. He said that new legislation requiring equal wages for foreigners will have little or no impact on BHP's use of skilled worker visas to bring in skilled labor to compensate for domestic shortages. He noted that the majority of BHP's foreign workers -- brought in under Australia's 457 visa category -- fall into skilled categories and are paid market rates. Qcategory -- fall into skilled categories and are paid market rates. The advantage of these workers is that they are available when locals aren't and they can be brought in within three to four months. Mining giants BHP and Rio Tinto prefer "direct engagement" with domestic workers, arguing that the exclusion of unions has meant 16 years of comparative peace in workplace relations for the resources industry. But the Rudd government banned such direct engagement when it passed the Fair Work Act -- which went into effect on July 1, 2009.

¶5. (SBU) Worried about the potential impacts of the Act, companies have switched to non-union collective agreements. Some of the Act's provisions of concern to the companies are: Greater scope for union officials to enter worksites; obliging employers to engage in "good faith" collective bargaining; abolishing individual agreements; and allowing a union to enter a workplace covered by a different union to engage with employees, opening the possibility of turf wars between unions.

Unions see an opportunity

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¶6. (SBU) Unions want to leverage the strong labor demand to expand their coverage. The Construction, Forestry, Mining and Energy Union (CFMEU; aligned with the Left faction of the Labor party) and the Australian Workers Union (AWU; aligned with the Right faction of the Labor party) are competing for members and eyeing wage opportunities in WA, such as the massive A\$43 billion Gorgon project and up to 10,000 new jobs.

¶7. (SBU) AWU leader Paul Howes acknowledged more union-friendly laws but opined that these were less prescriptive than the proposed Employee Free-Choice Act is in the U.S. Howes said AWU had been negotiating with Gorgon contractors and was optimistic AWU would get significant coverage for its members during the construction phase of the project. CFMEU Secretary Andrew Vickers said his union is challenging the exclusion of unions from agreements in federal court.

¶8. (SBU) BHP CEO Kloppers and WA's Chamber of Minerals and Energy called for Australia to improve its use of labor through improved training and incentives, as well as increased immigration. However, Howes said immigration law amendments, which now prohibit paying temporary foreign workers less than Australians, effectively make them more expensive to hire, once transportation, housing and other costs are factored in. He suggested Gorgon use local contractors to benefit "manufacturing workers on the east coast," noting the structural economic shift taking place countrywide and likely to hurt the manufacturing-heavy economies of states in the eastern part of the country. [Comment: BHP's Delaney said that there is little difference in cost of foreign compared to local skilled workers because most staff are employed under comparatively expensive "fly-in, fly-out" arrangements. The cost to relocate foreign workers to Australia is not much more than the cost of getting local labor to relocate from the East Coast to Western Australia, he said. End comment.]

Unions Already Striking

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¶9. (SBU) The Maritime Union of Australia (MUA), which covers 14

ports and claims membership of 3,000, is aggressively seeking wage talks in the resources, seafaring and construction sectors. The WA Chamber of Commerce and Industry fears the MUA's campaign for higher wages will disrupt several multi-billion dollar resource projects off the WA coast. In November, MUA went on strike against Norwegian company Farstad - whose vessels service oil and gas fields including Woodside's Pluto LNG project.

¶10. (SBU) Woodside, Australia's second-largest oil and gas producer, claims that partly because of higher-than-expected labor costs, the cost of its Pluto project could jump by as much as A\$1.1 billion. In December, the CFMEU went on strike at Woodside's Pluto project in WA's Pilbara region, over proposed accommodation changes. Companies like Woodside are taking preemptive measures against looming labor competition, such as awarding 3-year loyalty bonuses, including stock options, to all employees.

¶11. (SBU) Comment: At the Gorgon December 1st inauguration, besides congratulatory remarks, labor issues dominated conversations among stakeholders (subcontractors, services companies, government). All stakeholders (subcontractors, services companies, government). All agreed there is already a shortage of skilled labor and made Ambassador Bleich aware of their concerns about the impact of empowered unions. The Rudd government is sympathetic to unions but wants to keep them from damaging Australia's international reputation as a competitive and reliable supplier of resources and energy. Unions are likely to increase membership and gain real wage increases as long as they avoid "killing the goose that lays the golden egg." When faced with a smaller-scale labor shortage two years ago, companies were able to work around it by hiring foreigners. Some believe that changes to immigration policy may make it harder to do this in the future, though one of the biggest players clearly does not. The uncertainty surrounding availability of skilled labor, as well as changes to labor policies, could threaten the completion of, or at least delay, some of the growing number of resource projects planned in Australia.

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